

Will Chad's actions be Sufficient in Preventing Resource Curse?

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Abstract: Chad commenced its oil production in 2002 and will be exporting vast quantities of oil by 2004. By doing so it is forecasted that Chad will generate \$3.5 billion of economic activity. The implications for Chad's economy of this capital influx are causing concern. Other countries in Chad's position have frequently suffered what has become known as a 'Resource Curse'. Rather than stimulating growth, a mineral resource has potential to imbalance countries' economies inducing stagnation, or retarding economic growth. The purpose of this paper is to examine what action Chad is taking in order to counter act any ill effects from the mineral exploitation and associated wealth generation. The paper concludes that although Chad has spent a great deal of time and effort in acting to avoid resource curse it is by no means clear that it will be able to do so.

Keywords: Economic development, Petroleum development, Republic of Chad, Resource curse.

ABBREVIATIONS

ACBF	Africa Capacity Building Foundation
AFDB	African Development Bank
BEAC	Bank of the Central African States
bn	Billion
CAMU	Central African Monetary Union
CCSRP	Oil Revenues Control and Monitoring Board
CESRAP	<i>Cellule Technique Chargé de la Réforme de l'Administration Publique</i>
CFA	<i>franc de la Communauté financière de l'Afrique</i>
COBAC	Commission Bancaire de l'Afrique Centrale
CTNSC	National (Government) Technical Committee for Monitoring and Control
ESAF	Enhanced Structural Adjustment Facility
FACIL	<i>Fonds d'Actions Concertées d'Initiative Locale</i> (Local Initiatives Fund)
GNI	Gross National Income
HIPC	Heavily Indebted Poor Country
IAG	International Advisory Group for the Chad-Cameroon Petroleum Development and Pipeline Project
IDA	International Development Agency
IFI's	International Financial Institutions
IMF	International Monetary Fund
IPRSP	Interim Poverty Reduction Strategy Paper
LPRM	Law of Petroleum Revenue Management
m	Million
MEWR	Ministry of the Environment
MMEP	Ministry of Petroleum
PID	Project Information Document
PRGF	Poverty Reduction Growth Facility
PRSP	Poverty Reduction Strategy Paper
SME	Small and Medium Scale Enterprises
WB	World Bank

1. Introduction

Chad has substantial oil reserves in the South and a consortium of ExxonMobil, Petronas and ChevronTexaco is commencing a Project to produce from those reserves around Doba and to take them to Cameroon's coast for export. The Project commenced in 1988 with the signing of an exploration permit and Chad could be exporting oil by the end of 2003.

The potential benefits to Chad from its oil export are great. Chad is one of the poorest countries in the world with Gross National Income (GNI) \$200 per capita¹, the fifth lowest in the world² (World Bank World Development Indicators 2002) and stands to generate revenue of \$1.8billion (bn) at a brent crude price of \$15.25 barrel. The Project will increase yearly Government revenues by 45%-50%, which Chad, after almost three decades of civil war, would desperately need for its development activities.

However, resource revenues have frequently been the cause of a curse rather than a blessing³. Some countries have even suffered civil wars as a consequence of their natural resources⁴. With this in mind, Chad, with the help of International Financial Institutions, (IFI's) has for several years been undertaking large scale structural reform to ensure that it will receive a blessing from its resource revenue.

The Project oil companies, keen to ensure that they are not blamed for rendering Chad to face its economic woes of previous years, have also been assisting Chad's preparations. In the last seven years, they have performed more than 900 local public consultations in over 300 villages and more than 250 consultations with national and international Non-Government Organisations (NGO's). Therefore, the Project has had one of the most

¹ Anonymous, *Chad At A Glance*, <http://www.worldbank.org/data/countrydata/aag/tcd_aag.pdf> (Last visited on 24 January 2003).

² Anonymous, *World Development Indicators* <http://www.worldbank.org/data/wdi2001/pdfs/tab2_3.pdf> (Last visited on 22 January 2003).

³ Gelb, A.H. and Associates. Windfall gains: blessing or curse? (New York: Oxford University Press, 1988).

⁴ McPherson, C. P. *Petroleum Revenue Management in Developing Countries*. <www.ifc.org/ogmc/pdfs/ParofPlentyCH2.pdf> (Last visited on 22 January 2003).

extensive pre-approval consultation processes of any project in Africa⁵, a process that will continue throughout the operation. The preparations lead to the World Bank (WB) approval and granting of financial support to the Project in 2002⁶.

However, whether Chad's preparations will be enough are a matter of debate and a recent report by Oxfam⁷ suggests the only way to avoid the resource curse is to leave the natural resources unexploited. Other criticisms of this particular project are that income will be lost through incompetence and corruption to serve political interests and to finance the military⁸. Chad is being closely monitored by other nations in the hope that the lessons learned from Chad would assist them in developing their natural resources to induce a resource revenue benefit.

This paper examines how Chad has sought to redress the main factors, generally contributing to the development of resource curse, under the five broad aspirations consisting of: diversifying industrial base; revenue stabilisation; oil fund implementation; fiscal policy; and political and social reform. A brief review then follows of project criticisms before concluding by assessing the chances of a resource revenue blessing.

2. How is Chad Responding?

Rather than rushing in to exploit the reserves, Chad has sought advice and assistance from IFI's and has been implementing reforms throughout its economic, political and social sectors since 1988. Such "overall economic management, democratic institution creation" and expansion of the private sector change is considered essential prior to oil sector reform⁹. Some of the ways in which this is and has been carried out are summarised in table 1. The table also shows the effort being spent on developing the

⁵ Anonymous, <www.essochad.com> (Last visited on 18 December 2002).

⁶ Id.

⁷ Ross, M. *Extractive Sectors and the Poor*. <www.oxfamamerica.org/eirexport/index.html> (Last visited on 15 December 2002).

⁸ Martin, J. P. *Chad Cameroon oil pipeline project a study tool and case study*. <www.columbia.edu/itc/sipa/martin/chad-cam/> (Last visited on 17 December 2002).

⁹ See McPherson, supra note 4.

capacity of Chad by developing the law, financial structures and Governmental institutions.

Table 1. Chad's Major Reform Projects

PROGRAM	DATE	ADVISOR	AID GIVEN	DETAILS
Technical Assistance Project For Economic and Financial Management	1988 on	IMF		Capacity strengthening incorporating a Tax Reform Program
Fiscal Consolidation and Economic Reform Program	January 1995 to 1999	IMF	\$53m	Enhanced Structural Adjustment Facility (ESAF) Poverty Reduction Growth Facility (PRGF) three tranche loan to develop macroeconomic stability, public administration, revenue departments, private sector and define spending priorities. Provided due to Heavily Indebted Poor Country (HIPC) status.
New Constitution	1996			
Law of Petroleum Revenue Management (LPRM)	December 1998			
Management of The Petroleum Economy Project / Petroleum Revenue Management Project	January 2000, effective September 2000	IDA & IMF	\$17.5m	Build capacity to assist Petroleum Revenue Management Strategy on absorption and allocation of funds. Includes the Doba Project Management tasked with <i>Fonds d'Actions Concertées diInitiative Locale</i> (FACIL -pilot fund for micro-development), training National (Government) Technical Committee for Monitoring and Control (CTNSC) staff, and strengthening Ministry of the Environment (MEWR) and Ministry of Petroleum (MMEP).
Petroleum Development & Pipeline Project	June 2000	IBRD, IFC	\$39.5 + A and B loans	Permitted the 3% equity purchase in the export pipeline.
Petroleum Sector Management Capacity Building Project	June 2000, effective March 2001	IMF	\$23.7m	To strengthen: Government Capacity; the regulatory frameworks; ability to attract and effectively negotiate with investors; and facilitate the Petroleum Sector Information Management System. Closely linked to Environmental Management Plan & Revenue Management Program.
PROFESS Project	April 2001	Africa Capacity Building Foundation (ACBF)	\$1.5m	Support to <i>Cellule Technique Chargé de la Réforme de l'Administration Publique</i> (CESRAP) (managing administrative reform) and other capacity building initiatives.
IPRSP	May 2001	WB & IMF	\$260m	Delivery of paper resulted in provisional HIPC funds been released.

Sources: www.worldbank.org/hipc/, www.imf.org and Martin J. P.

This paper will now look at what are considered to be the areas in which the resource curse may arise and assess how Chad, in partnership with the IFI's, has sought to thwart them through mechanisms inaugurated by the programs as shown in table 1.

Diversifying Industrial Base

A wide industrial base will prevent an economy from relying too much on petroleum revenues if it has revenues from other sources. Chad, however, has only a small industrial base. Table 2 shows that Chad earns its Gross Domestic Product (GDP) from the Primary and Tertiary Sector and not from a manufacturing sector. Nearly 90% of Chadian is employed within the Primary sector from which cotton provided 55% of 1998 export revenue and meat 23%. Therefore, if this sector were to suffer, the consequences would be enormous emphasising the need to diversify¹⁰. Furthermore, agriculture, the main primary sector component, frequently suffers substantially from crowding out as a result of resource exploitation¹¹ which strengthens the diversification requirement.

Table 2. GDP Percentage by Product Sector in 2000 and 1980-'82 Sector Workforce¹²

N.B. Primary Sector Workforce includes mining.

Economic Sector		Workforce
Agriculture	22.8%	
Livestock	12.1%	
Fishing & Mining	3.1%	
<i>Total Primary Sector</i>	<i>37.9%</i>	<i>88.5%</i>
Manufacturing & Handicrafts	10.8%	
Water & Electricity	0.6%	
Construction & Public Works	2.0%	
<i>Total Secondary Sector</i>	<i>13.4%</i>	<i>3.5%</i>
Commerce & Transport	24.5%	
Public Administration	11.4%	
Services	9.6%	
<i>Total Tertiary Sector</i>	<i>45.5%</i>	<i>8%</i>

¹⁰ See Ross, *supra* note 7.

¹¹ Auty, R., *Internal constraints on prudent oil windfall deployment for Resource-based industrialisation: Nigeria and Cameroon*, Geoforum 19 (1988).

¹² Sources: Anonymous Country Report: Chad. <<http://www.imf.org/external/pubs/ft/scr/2002/cr0228.pdf>> (last visited on 19 December 2002) and Anonymous, *supra* note 2.

One way in which Chad has sought to diversify is by privatising state industries to develop competition. From 50 state companies 45 had been privatised by 2000¹³ and the remainders have a timeframe for privatization. The progress is illustrated best with the state cotton company, CotontChad, which was split up both horizontally and vertically before being privatized¹⁴.

Private investment is a key to diversifying. Gylfason and Zoega state “the larger the share of natural capital in national income, the lower is the rate of growth of consumption and the greater is the need for measures to spur investment”¹⁵. Chad has made tax reforms since 1988, which aim to provide incentives to encourage investment. Chad has also promoted private investment in all sectors¹⁶ with successes including the award of a third mobile license and the sale of air traffic rights¹⁷.

Diversification can be achieved with openness to trade¹⁸. This is difficult to measure; however, the WB (World Bank) has been working with Chad to ensuring openness in investment policy¹⁹. Chad’s openness can be seen by Chad’s inclusion within the African Development Bank (AFDB) Cross Border Initiative in 1992, which seeks to expand continental integration and develop foreign trade²⁰. However, as Sachs & Warner

¹³ Anonymous, *Project appraisal document on proposed International Bank for Reconstruction and Development Loans in amounts of US\$ 39.5 million to the Republic of Chad and US\$ 53.4 million to the Republic of Cameroon and on proposed international finance corporation loans in amounts of US\$ 100 million in a-loans and up to US\$ 300 million in b-loans to the TChad Oil Transportation Company, S.A. and Cameroon Oil Transportation Company, S.A. for a Petroleum Development and Pipeline Project*. <<http://www.worldbank.org/afr/ccproj/project/tdpppad.pdf>> (last visited on 10 January 2003).

¹⁴ Anonymous, *Chad: 2001 Article IV Consultation, Third Review Under the Second Annual Program Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, and Requests for Augmentation of Access and for Waiver of Performance Criteria--Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Chad*. <<http://www.imf.org/external/pubs/ft/scr/2002/cr0229.pdf>> (last visited on 22 December 2002).

¹⁵ Gylfason, T and Zoega, G. *Natural resources and economic growth: the role of investment*. <www.econ.ku.dk/epru/files/wp/WEB-blaa-2001-02.pdf> (Last visited on 22 January 2003).

¹⁶ See Anonymous, supra note 13.

¹⁷ See Anonymous, supra note 14.

¹⁸ Gylfason, T. *Natural resources and economic growth: what is the connection?* <http://papers.ssrn.com/sol3/delivery.cfm/SSRN_ID279679_code010821590.pdf?abstractid=279679> (last visited on 28 December 2002).

¹⁹ See Anonymous, supra note 13.

²⁰ Anonymous, <<http://www.afdb.org/cbi/about.htm>> (last visited on 18 December 2002).

discovered²¹ petroleum revenues may create a false sense of security, which can lead Governments to losing sight of free trade.

In order to assist the diversification efforts, the Project is giving local companies priority in contracts where they are competitive. A Small and Medium Scale Enterprises (SME) capacity building project was launched to assist this by providing training, grants and micro-finance²². This has been successful as \$340m of Projects funds have been spent on local Chad and Cameroon businesses²³.

The Doba region receives special attention as it faces particular problems of crowding out from the Project. The Law of Petroleum Revenue Management (LPRM) earmarks 5% of 90% of royalties and dividends for the region. The low figure of 5% appears to have no prior estimate base, although the LPRM permits it to be altered every 5 years. A further incentive for the region will come from the planned Governmental Decentralisation²⁴. Both will assist diversification by providing alternative employment, but this may not necessarily raise industrial occupations.

Revenue Stabilisation

Volatile petroleum revenues create consumption patterns which prove hard to curb during the periods of low oil prices²⁵. To mitigate such affects, Chad has established an Oil Fund with revenue stabilisation as one of its purposes. Excess petroleum revenues will be saved by the fund and used for stabilisation. As new resource wealth typically exceeds absorptive capacity,²⁶ these savings will be released only when either absorptive capacity

²¹ See Gylfason, *supra* note 18.

²² Anonymous, *Project Overview*. <http://www.worldbank.org/afr/ccproj/project/pro_overview.htm> (last visited on 22 January 2003).

²³ Anonymous, <www.esso Chad.com> (Last visited on 18 December 2002).

²⁴ Anonymous, *International Advisory Group (IAG) for the Chad–Cameroon Petroleum Development and Pipeline Project*. www.gic-iag.org/ework.htm (Last visited on 29 December 2002).

²⁵ See McPherson, *supra* note 4 and Auty, *supra* note 11.

²⁶ See McPherson, *supra* note 4.

increases or oil prices fall²⁷. By February 2003, measures will be in place so that withdrawal of finance from this fund will match principles determined by the LPRM²⁸.

Other keys to revenue stabilisation include maintaining a stable exchange rate²⁹ and having modelling and forecasting ability³⁰. Chad is a member of Central African Monetary Union (CAMU) with its exchange rate linked to six other countries providing it some exchange rate stability, which would assist if Chad wants to devalue its currency. Modelling and forecasting ability has been enhanced by the \$4.4m development of a Petroleum Sector Information Management System³¹ aimed at building management capacity, which should assist modeling and forecasting ability.

Oil Fund Implementation

Frequent changes to oil fund structures limit their impact³² and so in December 1998, Chad enacted the LPRM to establish its oil fund by law. The Act, only four pages long, is clear and unambiguous - an important feature³³. Its enactment is positive as funds issued by decree, as was Azerbaijan's Oil Fund,³⁴ are less stable and more subject to change.

The LPRM has several purposes - one being to define clear goals - a requirement for a successful oil fund³⁵. The Act does not expressly state the goals for the division of funds, but clearly identifies that the principal goal is assisting poverty reduction, saving for future generations and stabilising revenues. A revenue management program, to be

²⁷ Anonymous, *Chad-Letter of intent, memorandum of economic and financial policies, and technical memorandum of understanding*. www.imf.org/external/np/loi/2002/tcd/01/index.htm (last visited on 22 December 2002).

²⁸ Id.

²⁹ See Gylfason, supra note 18.

³⁰ See McPherson, supra note 4.

³¹ Anonymous, *Chad Petroleum Sector Management Capacity - Building Project PID*. <http://www.worldbank.org/afr/ccproj/project/smcb.pdf> (Last visited on 22 January 2003).

³² See Nigeria for example. Auty, supra note 11.

³³ Devlin, J. and Lewin, M. *Issues in oil revenue management*. Paper to the World Bank/ESMAP Workshop in Petroleum Revenue Management, Washington DC, October 23-24, 2002.

³⁴ Petersen, C. E. and Budina, N. *Oil Funds in Transition Economies: Revenue Management*. Paper to the World Bank/ESMAP Workshop in Petroleum Revenue Management, Washington DC, October 23-24, 2002.

³⁵ See McPherson, supra note 4.

performed by Chad and IDA will assist in determining which key poverty reduction projects will crop up³⁶. IDA's involvement ensures that projects will satisfy the requirements of poverty reduction. This is emphasised in the Government paper "Strategy for Management of the Petroleum Economy"³⁷.

Fund management within the LPRM is clearly established requiring revenue to flow through offshore audited escrow accounts in accordance with Bank of the Central African States (BEAC) rules. A fund for Future Generations will receive 10% of the Project Royalties and Dividends. The larger 90% will enter Commission Bancaire de l'Afrique Centrale (COBAC) certified Special Accounts to be divided as follows:

- 80% to the Poverty Reduction areas of public health and social affairs, education, infrastructure, rural development (agriculture and livestock), environment, and water resources;
- 15% to Government expenses; and
- 5% to the Doba region.

It is observed that inclusion of agricultural investment is crucial, as this is where 88.5% of Chadians are employed and its proper maintenance will hedge against a Petroleum revenue downswing³⁸.

The largest losses in the revenue management chain occur in fund usage³⁹. A false sense of security can lead Governments to losing their economic management abilities⁴⁰ and wasting money. The LPRM, by establishing clear areas for spending allocations, may

³⁶ See Anonymous, *supra* note 22.

³⁷ Anonymous, *Chad - Management of the Petroleum Economy Project PID*. <http://www.worldbank.org/af/cproj/project/mpep.pdf> (last visited on 22 January 2003).

³⁸ See Auty, *supra* note 11.

³⁹ See McPherson, *supra* note 4.

⁴⁰ Mehlum, H. *et al.* *Institutions and the resource curse*. www.folk.uio.no/karlom/natres.pdf (Last visited on 22 January 2003).

prevent this occurring. The rules are such that the fund cannot spend per se unless there exists clear allocations, a measure considered vital for a fund to operate effectively⁴¹.

A key for any fund to work is that rules are established to ensure good management, transparency and accountability⁴². IFI's can influence this only prior to oil revenues accruing when the IFI financial assistance is required and this influence was exerted by the IFI's in the Development Credit Agreement. IFI's may have assisted in developing a transparent and accountable monitoring system via the LPRM. Article 12 states that disbursement from the Special Accounts will be in accordance with the national expenditure programme, as prepared annually by the Government in agreement with the Oil Revenues Control and Monitoring Board (CCSRP). The monitoring body CCSR is established by the LPRM to control and monitor petroleum revenues. Article 16 sets out its membership to represent all groups from civil society, including an NGO and trade union representative, to ensure it operates fairly and without corruption.

Further supervision of the petroleum revenue will be done by the Ministry of Finance and Economy, the Audit Office of the Supreme Court to ensure legality of all expenditures and the Parliament will oversee all. Parliament will monitor everything by receiving periodic audits and reports by CCSR, the Audit Office and by the regional bank supervision agency COBAC to ensure the system is transparent and accountable. To further ensure corruption does not enter, the WB will be reviewing expenditure in "Annual Public expenditure Reviews"⁴³.

In an attempt to ensure transparency and maintain civil society's interest in the Project, all results will be published openly for debate. This may help protect public interest in prudent resource usage, which is considered vital⁴⁴. To ensure that the civil society has capacity to analyse and respond to the results, "Institutional Development Grants" exist⁴⁵.

⁴¹ See Devlin and Lewin, *supra* note 33.

⁴² See McPherson, *supra* note 4.

⁴³ See Anonymous, *supra* note 14.

⁴⁴ See Devlin and Lewin, *supra* note 33.

In summary, accountability via the LPRM exists at the highest level, Parliament, and transparency is achieved by monitoring bodies composed of people chosen from broad societal levels.

Fiscal Policy

Fiscal Policy is associated with the resource curse problems regarding exchange rates, rent seeking corruption, public sector overspending and inefficiency⁴⁶. But good fiscal policy and management can encourage foreign investment and slow down windfall absorption, increasing the chance of a resource blessing⁴⁷. In order to achieve this, Chad has implemented “revisions in social security, labor laws, trade policy, and other areas of economic regulation to create a market-friendly environment.”⁴⁸.

The private sector can assist in sound policy formulation as it presses Governments for sound policies; conversely, if one sector gains too much power the pressure may overwhelm a Government - a reason for industry diversification as discussed earlier. To enable this to occur, Chad’s private sector has been encouraged via the privatisation program, Procurement Reform (under the Poverty Reduction Strategy Paper (PRSP), opening up Chadian Government contracts to competition and tax reforms.

One of the most important developments has occurred to the tax rules and regulations, reformed since 1988. Fiscal system design can ensure that revenue is efficiently obtained, “investor interest is maintained, and the revenue flow to Government is timely, dependable and adequate”⁴⁹. A fiscal system should not distort company pre-tax decisions and it should ensure the Government a progressive share of resource rents. Another component to the tax system is subsidies and their use has major implications to

⁴⁵ See Anonymous, supra note 14.

⁴⁶ See Devlin and Lewin, supra note 33.

⁴⁷ See Ross, supra note 7 and Auty, supra note 11.

⁴⁸ See Anonymous, supra note 31.

⁴⁹ See McPherson, supra note 4.

the resource curse⁵⁰. With over a decade of international assistance reforming this sector, a sound tax and subsidy policy should now exist.

Chad's investment policy will be fundamental in avoiding resource curse. This was briefly discussed earlier in regard to the Oil Fund. However, although the rules state the funds are for the defined Poverty Reduction areas, no criteria have been given for assessing the projects. Poor investment decisions could lead to a development failure, and hence, like Nigeria's large agricultural investments⁵¹, would be a waste of resources. It is, therefore, critical that Chad closely observes the intent of the Poverty Reduction definitions in its investments and here the International Development Agency (IDA) will work closely with Chad. Present investment policy appears sound. Investments are occurring in small scale projects, such as, providing agricultural families with ploughs and livestock owners with water points⁵².

Political & Social Reform

In a petroleum dominated economy, Chad's governmental actions could influence protection of the industry,⁵³ as the petroleum revenue will provide a third of Government revenues⁵⁴. The Government, therefore, needs to be a strong and accountable one and a democratic system is often advocated⁵⁵. The new constitution of 1996, new civil service code, defining jobs and providing employee evaluations, and the introduction of Procurement and Budget Settlement Laws,⁵⁶ represent other progresses towards political accountability. Chadian President Idriss Deby was also democratically re-elected in 2001 after initially taking power in a military coup in 1990. However, the election process was criticised. International NGO's appealed to the WB not to co-operate with Chad until a

⁵⁰ Stevens, P. *Resource impact - curse or blessing?* A literature survey (Unpublished First Draft) University of Dundee, 2002.

⁵¹ See Auty, supra note 11.

⁵² See Anonymous, supra note 14.

⁵³ Stevens, P. *The impact of oil on the role of the state in economic development: a case study of the Arab world*. Arab Affairs Vol 1 No1, 1986.

⁵⁴ See Anonymous, supra note 22.

⁵⁵ See Ross, supra note 7.

⁵⁶ See Anonymous, supra note 14.

transparent election process, operated free from voter intimidation and beatings and jailing of opposition candidates, has stopped⁵⁷. The progress may be small but it is a step up from a military coup.

Institutional quality is central in determining whether countries could avoid the resource curse or not⁵⁸. Chad's weak institutional capacity predates petroleum wealth and has resulted in institutional capacity building being one of the key areas of reform since present constraints are "at the core of Chad's efficient absorption of oil revenue"⁵⁹. Institutional capacity requires a strong rule of law, low risk of expropriation and a non-bureaucratic and non-corrupt Government⁶⁰. An ongoing IDA operation for Capacity Building for Economic Management had already started to improve capacity prior to the Project but further programs are now building on this⁶¹.

The five year WB Management of the Petroleum Economy Project is targeted at capacity building and was given \$17.5m to achieve this⁶². One component of it is the Doba Project Management Project which has two capacity building objectives: firstly, to build social and technical capacities of Ministry of the Environment (MEWR) and Ministry of Petroleum (MMEP), and secondly, to build the Government's capacity to deal with the legal, financial and technical aspects of the project.

The Doba Project Management is achieving its first objective in several ways. One is the strengthening the capacity of National (Government) Technical Committee for Monitoring and Control (CTNSC's). The CTNSC is fundamental to the monitoring and control of environmental and social impacts of the Doba project. To achieve this, the Doba Project Management has been providing training sessions, logistical support and

⁵⁷ Nguiffo, S. and Breikopf, S. *Broken Promises*.

http://www.milieudefensie.nl/earthalarm/download/broken_promises_rapport.pdf (last visited on 22 December 2002).

⁵⁸ See Mehlum *et al* supra note 40.

⁵⁹ See Anonymous supra note 37.

⁶⁰ See Mehlum *et al* supra note 40.

⁶¹ See Anonymous supra note 37.

⁶² See Anonymous, supra note 14.

independent consultant services from the International Advisory Panel⁶³. The second component of The Management of the Petroleum Economy Project is the Petroleum Sector Management project which is charged with developing a regulatory framework and developing the Petroleum Sector Information Management System.

The Petroleum Sector Management Capacity-Building Project⁶⁴ has been given \$23.7m to promote sound management and the environment in the sector⁶⁵. The project has five components: strengthening of public financial management; establishing a reporting system; supporting civil service reform; increasing oversight and controlling capacities of the Auditor General's Office and the Oil Revenues Control and Monitoring Board (CCSRP) and informing civil society of petroleum revenue strategy; and monitoring economic reform. The project is being overseen by the Minister of Planning and Regional Development with support from *Cellule Economique* at the Presidency and the Ministry of Finance and Economy. One example of how it is increasing the capacity is the \$4.4m development of a Petroleum Sector Information Management System⁶⁶.

In some countries which have experienced a resource blessing, there has been an educated class of highly qualified bureaucrats⁶⁷. In Chad, this is not the case. However, roughly 10% of the WB lending is for technical assistance and skill development which will build on previous Technical Assistance Projects, such as, the Technical Assistance for Project and Economic and Financial Management to train bureaucrats.

Natural resource abundance may reduce incentives to accumulate capital due to a high level of non-wage income (dividends, social spending and low taxes). A way of preventing this is considered to be education as measured by school enrolment figures⁶⁸. Botswana gives education a high priority and has high enrolment numbers and is one of

⁶³ See Anonymous, supra note 31.

⁶⁴ Id.

⁶⁵ See Anonymous, supra note 14.

⁶⁶ See Anonymous, supra note 31.

⁶⁷ See Stevens, supra note 50.

⁶⁸ See Gylfason, supra note 18.

the best performing resource rich countries⁶⁹. Prior to the oil reforms, Chad successfully implemented policies to increase school enrolment⁷⁰ and now higher enrolment targets have been set together with an aim to reduce repeater numbers. To assist Chad achieve these targets, it received a \$30m Education Reform Credit from the IMF in June 2002⁷¹.

Rural urban migration may result from the Project potentially leading to labour shortages in Chad's agricultural sector. This could also lead to an urban bias in the Government spending, with the Government taking on excess staff in incredible public service expansion⁷². Through the Doba Project Management, Chad is seeking to prevent migration by running a public awareness campaign utilising radio, posters, kiosks, drama performances and videos and implementing the *Fonds d'Actions Concertées diInitiative Locale* (FACIL) program⁷³. FACIL aims to develop micro-industry within the Doba region which should provide employment to encourage people to remain in Doba. Chad is also decentralising the Government, which will mean that the Governmental jobs will be located throughout the country which should reduce the migration to N'Djamena, Chad's capital. However, given all this preparation, an oversight appears - as there is nothing in place to maintain a check on public service employment numbers.

3. Major Criticisms

Criticisms come from both NGOs and the IFI. Much of the IFI criticism is that capacity building projects are experiencing delays whilst the Project is commencing ahead of schedule. The IMF states "further efforts are required to improve Governance" and strengthen domestic institutions and an Inspection Panel in July 2002 revealed "serious concerns about the failure to develop and strengthen the institutional capacities of the Government of Chad"⁷⁴.

⁶⁹ See Gylfason and Zoega, supra note 15.

⁷⁰ See Anonymous, supra note 31.

⁷¹ See Anonymous, supra note 14.

⁷² See Stevens, supra note 53.

⁷³ See Anonymous, supra note 31.

⁷⁴ Anonymous, *Inspection Panel Investigation Report*.

Much NGO criticism concerns Chad's poor human rights record, which is outside this papers' ambit; however, other criticisms exist, namely, on the legal structures. The Human Rights Clinical Program at Harvard Law School criticises the LPRM as vague and inadequate to prevent large scale corruption⁷⁵. Furthermore, Chad's controversial election processes could 'elect' a Parliament to support a President to drastically alter the law.

Revenue control methods have also been questioned. Although Chad has reduced its armed forces by 50% in 2001, a 'Petroleum Bonus' of \$25m was received by Chad which the President declared he would manage in the same manner as eventual oil revenues, although the payment had no spending requirement attached to it. However, \$4.5m was then spent on military expenditure, when natural resource revenues are considered a reason behind civil wars, e.g. the Biafran War in Nigeria⁷⁶. Moreover, military expenditure limits growth⁷⁷.

Furthermore, the moves towards democracy are slow and will hinder transparency. An example, quoted by Samuel Nguiffo, is the suspension of local farmer's organisation EPOZOP. Misuse of funds could go unhindered if the Government repress such freedom of speech and with the monitoring bodies being located outside Chad, they will find it difficult to liaise locally in order to discover any irregularities.

The major criticisms, therefore, with the exception to the 'Petroleum Bonus' usage, concentrate on whether not Chad's capacity, be it institutional or legal, will be sufficiently developed in time for the Petroleum Revenues.

http://www.worldbank.org/afr/ccproj/project/chad_Investigation_repor_final.pdf (Last visited on 22 December 2002).

⁷⁵ Anonymous, No Title. www.pipelinewatch.org (Last visited on 3 January 2003).

⁷⁶ See McPherson, supra note 4.

⁷⁷ See Gylfason and Zoega, supra note 15.

4. Conclusion

There has been a huge investment of time and effort by several players in order to enable Chad to prevent the resource curse and benefit from its resource revenues. With a disrupted history, it will be interesting to learn if Chad will harness the opportunity it has been given. This can be evaluated properly when the revenues start flowing and Chad's institutional capacities are tested. Chad has made constructive moves to diversify its industrial base and introduced competition and private enterprises. It has made further moves to strengthen its legal and democratic systems and control revenue volatility and expenditure. However, the core is Chad's capacity; and whatever capacity is constructed now and no matter how much procedures are established for revenue management, little can be done to prevent Chad returning to its past, should it choose to do so. The President could use the promise of petroleum revenue to buy off the military to enforce changes and return the country to an authoritarian regime. This is very much in Chad's hands and it is because of this that Chad will remain a focus of attention as the Petroleum revenues start arriving.

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